

Message Text

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ACTION NEA-10

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC IMMEDIATE 6867

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: PGOV, PK, CPAS, CPRS,

SUBJECT: ANALYSIS OF GOP NATIONALIZATION OF COTTON-GINNING
RICE-HUSKING AND WHEAT FLOUR MILLS

REFERENCES: A. ISLAMABAD 7358; B. ISLAMABAD 7845,

SUMMARY: EMBASSY ASSESSMENT IS THAT NATIONALIZATION ACTION HAS
BEEN A POPULAR MOVE POLITICALLY, THAT GOP WILL FIND IT HARD TO
OPERATE THESE 2,200 TAKEN-OVER MILLS, AND THAT PRIME MINISTER
BHUTTO'S ACTION HAS FURTHER DAMAGED HIS CREDIBILITY AMONG
POTENTIAL PRIVATE INVESTORS. END SUMMARY.

1. POLITICAL IMPACT: OUR ASSESSMENT IS THAT BHUTTO'S ACTION HAS
BEEN FAVORABLY RECEIVED BY THE PUBLIC AT LARGE, BOTH IN URBAN AND
AGRARIAN AREAS. ACCORDING TO CONGEN LAHORE, THE URBAN REACTION
HAS BEEN GENERALLY FAVORABLE, ESPECIALLY AMONG LABORERS AND THE
MIDDLE CLASS. PEDICTABLY, THE INDUSTRIALISTS IN LAHORE AND KARACHI
ARE DISMAYED AND FEAR FURTHER NATIONALIZATION. IN RURAL AREAS,
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MANY COTTON AND RICE GROWERS HAVE LONG REPORTEDLY FELT THAT THE PRICES OFFERED THEM BY THE MILLERS WERE TOO LOW AS COMPARED TO THE PROFITS THE MILLERS THEMSELVES APPEARED TO BE MAKING. IN MANY AREAS TOO THE MILLERS EXERTED MONOPOLISTIC BUYING POWER. THE WHEAT FLOUR MILLERS HAVE ALSO BEEN GETTING UNFAVORABLE PUBLICITY FOR ADULTERATION, FOR SHORT-WEIGHTING AND OTHER MALPRACTICES.

2. HENCE, THE REACTION OF THE LITTLE MAN TO NATIONALIZATION HAS SEEMINGLY BEEN FAVORABLE AND IS LIKELY TO REMAIN SO IF THE GOVERNMENT CAN OPERATE THE MILLS REASONABLY WELL AND PROVIDE GROWERS WITH A HIGHER RETURN AND CONSUMERS WITH A BETTER PRODUCT. NATIONALIZATION IS OBVIOUSLY A STEP TAKEN BY BHUTTO WITH THE UPCOMING NATIONALIZATIONS IN MIND.

3. THOSE ADVERSELY AFFECTED -- AT MOST PROBABLY 6,000 FAMILIES -- INCLUDE SOME PPP SUPPORTERS, BUT BHUTTO WOULD NEVER HAVE TAKEN HIS ACTION HAD HE CALCULATED THE MILLERS' COLLECTIVE POLITICAL CLOUT TO BE SIGNIFICANT. THE VERY FACT THAT THE NATIONALIZATION ORDINANCE INCLUDED THE HARSH MEASURE OF REQUIREING THE EVICTION WITHIN FIFTEEN DAYS OF ALL MILL OWNERS FROM RESIDENCES LOCATED ON FACTORY COMPOUNDS SUGGESTS HE WAS NOT WORRIED ABOUT THIS CONSIDERATION.

4. IF, AS MANY EXPECT, THE GOVERNMENT PROVES INCAPABLE OF OPERATING THE MILLS WELL, AND SHORTAGES, BOTTLENECKS, CORRUPTION AND HIGHER RETAIL PRICES ENSUE, PUBLIC REACTION WILL OF COURSE SHIFT. SINCE THE COTTON AND RICE HARVESTS WILL START IN LESS THAN TWO MONTHS TIME, THE GOVERNMENT'S COMPETENCE WILL VERY SOON BE PUT TO THE TEST. FARMERS TOO HAVE BECOME ACCUSTOMED TO RECEIVE CREDIT FROM MILLERS TO PURCHASE FERTILIZERS, ETC., IN ADVANCE OF THE CROP. IF, AS MANY FARMERS FEAR, ACCESS TO CREDIT WILL NOW BECOME MUCH MORE DIFFICULT, THERE WILL BE AN ADVERSE POLITICAL REACTION IN THE COUNTRYSIDE ALONG WITH POSSIBLE PRODUCTION LOSSES.

5. DURING THE AMBASSADOR'S MEETING WITH BHUTTO IN ZIARAT ON JULY 28, THE PRIME MINISTER VIGOROUSLY DEFENDED HIS NATIONALIZATION ACTION. HE SAID HIS ACTION WAS ABSOLUTELY NECESSARY FOR THE COUNTRY'S WELFARE, DESCRIBING THE MILLERS AS AN UTTERLY VENAL GROUP NOT COMPARABLE TO PRIVATE ENTREPRENEURS IN THE UNITED STATES.

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STATES. HE SAID HE WAS QUITE AWARE OF THE CREDIT SERVICES THE MILLERS HAD PERFORMED AND SAID THE GOVERNMENT WOULD DEFINITELY CONTINUE THIS.

6. GENERAL ECONOMIC EFFECT: WE DOUBT THAT A MAJOR MARKETING BREAKDOWN WILL OCCUR PARALYZING THE ECONOMY, BUT WE DO ANTICIPATE A SETBACK IN THE EFFICIENCY OF THE

THREE SECTORS, IN THE FORM OF BOTTLENECKS, WASTAGE, AND RECURRENT SHORTAGES. THE GOVERNMENT, HAS, OF COURSE, THE SERVICES OF ALMOST ALL OF THE EXISTING MILL STAFFS, AND IF PROBLEMS ARISE THE MONETARY RESOURCES OF GOVERNMENT TO FALL BACK UPON. BUT THE IMMEDIATE CHALLENGE FACING IT RELATES TO FILLING MOST OF THE NOW VACANT 2,200 MANAGERIAL POSITIONS IN THESE FACTORIES. MANY IF NOT MOST OF THE MILL GENERAL MANAGERS WERE THEIR OWNERS, NOT HIRED STAFF. REPLACING THIS TALENT OVERNIGHT WILL SURELY BE DIFFICULT.

7. ANOTHER CONCERN WE HAVE RELATES TO THE GOVERNMENT'S ABILITY TO OPERATE THESE MILLS EFFICIENTLY OVER THE LONG TERM. THE THREE SECTORS HAVE TRADITIONALLY BEEN SUBJECT TO EXTENSIVE GOVERNMENT PRICE AND OTHER CONTROLS WITH THE OBJECT OF KEEPING THE END PRODUCTS CHEAP TO HELP KEEP FOOD PRICES LOW AND TO ENABLE THE EXPORT SECTORS (COTTON PRODUCTS AND RICE) TO COMPETE EFFECTIVELY IN WORLD MARKETS. THESE OBJECTIVES STILL REMAIN, ALONG NOW WITH AN INTENTION TO PROVIDE GROWERS WITH A HIGHER RETURN. WITH SO MANY OBJECTIVES AND VARIABLES AT WORK, AMONG WHICH THE PROFIT MOTIVE FOR MILLERS IS NO LONGER A DRIVING IMPERATIVE, WE DOUBT THE MILLING SECTOR WILL IN THE FUTURE BE PROFITABLE OR AS EFFICIENT.

8. THE SPECTOR OF PRODUCTION LOSSES HAS ALREADY APPEARED IN THE WHEAT SECTOR. IMMEDIATELY AFTER NATIONALIZATION, WHEAT FARMERS IN SOME AREAS ENCOUNTERED DIFFICULTY IN SELLING WHEAT BECAUSE OF THE UNCERTAINTY OF PRIVATE WHEAT DEALERS ON HOW NATIONALIZATION OF FLOUR MILLS WOULD AFFECT THEM. SINCE PRIVATE DEALERS ARE UNCLEAR WHERE AND UNDER WHAT TERMS THEY WILL HENCEFORTH BE PERMITTED TO BUY AND SELL, THEY HAVE STOPPED BURYING. LIMITED OFFICIAL USE

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THUS, SOME FARMERS, FEW OF WHOM HAVE ANY STORAGE CAPACITY THEMSELVES, COULD IN THIS NOW MONSOON SEASON FACE DIFFICULTIES IN DISPOSING OF THEIR WHEAT.

9. BHUTTO'S ACTION HAS ALSO OF COURSE DEALT A HEAVY BLOW TO INVESTOR CONFIDENCE. THE SUCCESSIVE NATIONALIZATIONS OF '72, '74 AND NOW '76 MUST LEAVE INVESTORS WONDERING HOW THEY CAN DARE BELIEVE ANY OF BHUTTO'S ASSURANCES OF NO FURTHER NATIONALIZATIONS OR HIS ALLEGED INTEREST IN FOSTERING THE PRIVATE SECTOR. LARGE-SCALE PRIVATE INVESTMENT IN RECENT YEARS HAS BEEN MINIMAL AND IT IS SURE TO REMAIN SO FOR SOMETIME AS A RESULT OF THE JULY 17 ACTION. ALTHOUGH FOREIGN INVESTMENT WAS SPECIFICALLY EXEMPTED FROM NATIONALIZATION, FOREIGN

INVESTORS TOO ARE UNLIKELY TO VIEW THE GOVERNMENT'S
ACTION AS AN INDICATION OF A FAVORABLE ENVIRONMENT
FOR FOREIGN INVESTORS.

10. NATIONALIZATION AFFECTS TWO U.S. SHAREHOLDERS:
THE NATIONALIZATION HAS AFFECTED AT LEAST TWO AMERICANS
HOLDING SHARES IN THE TAKEN-OVER MILLS: MRS. MAXINE
MOHAMMAD AND DR. R. RAFIQ JAN. REFTEL B DESCRIBES THESE
TWO CASES.

11. THIS MESSAGE INCLUDES CONTRIBUTIONS FROM CONGENS
KARACHI AND LAHORE.
BYROADE

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